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I. PROPOSED TOPIC OF RESEARCH

"GROWTH PROSPECTS OF ISLAMIC BANKING IN INDIA: A COMPARATIVE STUDY WITH REFERENCE TO CONVENTIONAL BANKING STRUCTURE"

II. Introduction

Islamic Banking is a type of banking system which is based on the concept of Islamic values or governed by the 'Shariah' Law. In Islam, the collection of interest or 'riba' is prohibited which is lent to the people in need. Islamic banking also prohibits the lending of money which is lent for the activities which are considered 'haram' under the religion; for example, gambling, dealing in drugs, alcohol, or weapons of mass destruction, etc.

First Islamic Bank paved its stone in 1963, Egypt and since then Islamic banks has been on a constant growth spree registering double-digit figures. Funds regulated by Islamic banks estimates at around $ 2 trillion as per the report by World Bank in 2015. Today, renowned share markets have separate market indices comprising of Shariah-compliant companies; for example DOW Jones Islamic Market Index, Nifty 50 Shariah, etc.

Islamic Banking is governed by various key regulations:

i) Interest-free banking;
ii) Money cannot be lent for the activities which are considered Haram as per the holy book of Quran;
iii) Risk should be shared; and
iv) Lending of money should be linked to real assets.

Islamic Banking has always been a topic of hot debate all over the world because as John Harry, "a Bank is an economic institution whose main aim is to earn profit through exchange of money and credit instrument." Also, as per the RBI Act, 1936, banks are the institutes incorporate to accept deposits and grant loans with an intention to earn interest. While, Islamic Banking prohibits the interest earning or it is based on the concept of

interest free banking which is in direction contrast to the basic principle of interest earning in traditional banking structure. Therefore, to incorporate Islamic Banks into the Banking regulation Act, 1949, either the regulations have to be amended or they can be established as financial institutes, but not banks or as a Non Banking Financial Institute (NBFC).

Various modes of Financing available in Islamic Banking:

i) Mudharaba (Sharing of profits and losses) - This type of financing is just like the partnership where one person (rab-ul mal) provides the finance to the other person (mudarib) who is responsible for investing and managing that money and sharing profits or losses in agreed ration;
ii) Musharakah (Joint capital venture) - It is a type of agreement between bank and people where everyone puts in their share of capital and profits/losses are shared in that ratio;
iii) Murabahah (Hire purchase) - It is an agreement between the bank and the customer which is similar to hire purchase contract. In Murabahah the bank buys the asset instead of financing it and lends it to the customer on rental basis. When the cost of the asset bought is covered by the rental amounts, it can then be transferred to the customer; and
iv) Takaful (Insurance) – It is a type of agreement where members contribute money in order to guarantee each other in respect to any loss or damage incurred by them. Members don't pay premium instead they bring in the money with them.

III. Review of Literature

Many studies have been done in various Islamic countries and in Non-Islamic countries where Islamic Banks have been established. In respect to India, study has been done basically on the prospects and knowledge of people regarding Islamic banking.

Erol and El-Bdour (1989) conducted a study to understand the attitude, behaviour and patronage factors of banking customers in Jordan towards Islamic banks. Self-structured questionnaire was prepared and banking clients from middle-class, professionals, merchants, businessmen were interviewed. It was found that, religion wasn't a big factor for people depositing money in Islamic banks and they were profit driven which is against the basic principles Islamic banking is based upon. Peer group also played as an important factor for people choosing the particular bank. People were mostly aware of the Islamic banking system and its working.

Anwar and Haque (1991) in his study mentioned that Financial Institutes in a nation helps on funneling the funds, for the prosperity of society and increasing the generative capacity of the economy, and that in Malaysia, conventional banks exists in alignment with the Islamic Banks, therefore Anwar in his study tried to study the role and financial

structure of Islamic banking in the country. He found at that from 1985-90, assents in Islamic Banks has grown from $500 million to $1.4 billion with a growth of 44% in comparison to 10% growth in the conventional banking. Muslim population in Malaysia is 53 percent, and the need to interest free was because people wanted money to perform Hajj. So, Tabung Haji was established to assists Muslims, and as of 1990, its funds has increased from $126,000 to over $1.1 million. In his study, Anwar has found that Islamic Banks has generated employment opportunities, helped poor by providing loans, encouraged Muslims to push for savings, and gave finances to business and opportunists for development in the nation. He suggested that to cater to the needs of all people of the nation, both interest free banking and interest based banks should work in harmony.

Gerrard and Cunningham (1997) believed that Islamic Banks face major competition from conventional banks in Singapore as Muslims are a splinter group and them enjoying larger audience. Therefore, he conducted a study to know the knowledge, attitude, say of locals in context to Islamic banking. Three districts, Bulkit, Bedok, Aljunied were chosen as the muslim population in these districts were in line with the national Muslim population average. 405 questionnaires were distributed, out of which 222 were received, but only 190 were useable. It was found that Muslims had more knowledge about the terms relating to Islamic banking and they are inclined towards it because of the religious motive. Two-third of the Muslim respondents feels that they will take Islamic banking services based on both religion and profitability. Even though, Muslims are inclined towards the Islamic Banking, but still there is lack of knowledge and awareness among people.

Naser *et al.* (1999) said with over 180 Islamic banks, over 8000 branches, assets of over $170 Billion, Islamic banking is gaining its own importance. Even conventional banks are taking interest in this type of financing by opening subsidiaries or branches which are Shariah complaint. With growing competition, study was done to know the perception of customers regarding their satisfaction with the banking. Being the first bank and market cap being tripled from 1990 to 1995, Jordon Islamic bank for finance and investment (JIBFI) was taken. Questionnaire was designed in English and translated to Arabic and distributed to 300 customers, out of which 206 were complete. It was found that majority of people (84%) were satisfied with the financial services and products offered by the bank. Customers want to stick to the bank they have an account with and banks enjoy the competitive edge because of customers confidence which can be attributed to it being Shariah Compliant, therefore religion is a concern. Only issue customers faced with the Islamic Banks is with the opening timings of the banks. Chi Square Test was used to establish a relation between satisfaction of customers and other factors; and to check if the perceptions were similar to all groups, Kruskal Wallis test was used.

Ahmad & Haron (2002) studied that corporates are major clients of financial system, therefore his study was focused on to reason for clients to choose between Islamic Banks or conventional banks. 100 people who were involved in dealing with finance of the companies listed in Kuala Lumpur were survey, out of which 46 responses came (80% of which were Muslims). It was found that Islamic Banks is not much of an attraction

among corporate as only 11 of them maintained accounts with Islamic Banks. Further, 65% of the people feel that to better sustain in the financial market, Islamic Banks should concentrate on maximising profits which is against the principle it is based on. Ahmad and Haron believe that Islamic Banks have greater chances to wrestle with conventional banks only if they are able to control their costs.

Yusoff & Shamsuddin (2003) conducted a study to know the attitude of Muslim consumers towards Islamic financial products in an un-Islamic country and conducted a judgmental sampling where 250 questionnaires were distributed among Muslims in Loughborough, UK, out of which 128 were usable. The respondents showed positive approach and were willing to make a shift of their current borrowings to the Islamic ones. They had little knowledge about Islamic finance, but 64.1% of total respondents were wiling to close their existing banking accounts to open a new account with Islamic bank while 31.3% wanted to keep two accounts with both banks until they are sure about the working. Islamic banks need concrete strategies to attract new customers.

Yudistira (2004) said Islamic banks have stood well in comparison to the conventional banks during the global crisis of 1998-99. Therefore, to check their efficiency and stability this study was done. Financial statements of 18 Islamic banks from Middle East from period 1997-2000 were taken and variables were converted into US dollars and deflated by consumer price index to inculcate macro economic factors. Data envelopment analysis method was used where total loans, other income, liquid assets were taken as output variable while staff costs, fixed assets and total deposits were taken as input variables. It was found that Islamic banks have showcased greater efficiency during the sample period; most efficient in 2000 and slightly inefficient in 1998-99. It was further found that being new and less regulated Islamic Banks in outside countries are more efficient. Islamic banks which are not publically traded and listed performed better in comparison to those listed. There exists diseconomies of scale in Islamic Banks; therefore authors suggest mergers and acquisitions.

Hassan and Hameed (2005) conducted a study to check the performance of Islamic Banks with respect to micro and macro economic factors from 1994-2001. For this, financial statements of 43 Islamic banks were taken. To study the performance measures, various ratios were calculated. Quality ratios showed that Islamic Banks were better capitalised. While liquidity ratios said that Islamic banks are more liquid and operating rations signified commercial banks are more profitable. It was found that with increase in capital, profitability of banks is also increased, with larger profit margin when there is larger equity to total asset. While it is observed that, Islamic banks profitability is not affected with the capital adequacy ratios. Banks tend to perform better when macro economic factors support them, but GDP doesn't have much effect. Tax structure and Size of the banks tend to affect banks profitability.

Abdullah and Dusuki (2006) conducted a study to know the perception of people using Aitab, Hire Purchase as per Islamic banks which lets customer use asset for some rental with a condition of transferring the asset when term is over. For this study, 405 people were surveyed using Aitab, out of which 205 responses were available. Kruskal Wallis

and Mann whitney test were done to analyse if there is any variation in the responses of the survey people. It was found that 61% of people were already aware about the Aitab and 87.2% people were satisfied with the service of Aitab provided by the Islamic Banks. 37.9% of the people believed that Aitab is just like the classic hire-purchase agreement. Study found that survey people felt quite contended with the services and products offered by the Islamic Banks to their customers. Abdullah and Dusuki believe that Islamic Banks should work in synergies so as to better compete with the traditional banking system which will help in growing their horizon to world economy.

Modi (2007) said since interest is the foundation of conventional financial system, Islamic financial institutions have not been able to achieve the same feet of success in creating regulatory environment conducive to greater capital markets. In various countries which are not Islamic, totally complying with the Shariah regulations might not be the right path. But, there is need for standardized regulations for the working of Islamic banks because it will help in achieving greater transparency, serving with higher quality financial products, and sharing of ideas freely. Governments need to apply for standardized regulatory framework to achieve a larger share of the Islamic financial market.

Choong and Liv (2008) believes that Islamic Banks are not much away from the line of conventional banking structure as there is only a small portion which is based on PLS and remaining deposits are not interest free. To conduct this study, case study of Malaysia was taken as it is the largest Islamic bank. Bivariate granger causality test was done to find if there is any change in deposit rates with a change in Islamic investment rates and vice versa. It was found that any change in conventional deposit rate cause change in Islamic investment rate but not the other way round. To establish a relation between conventional deposit rate and Islamic Investment rate, Unit root and co-integrator rate were done. He found that deposits based on the PLS concept and savings with guarantee are not interest free and reason being, there is harsh competition from the conventional traditional banking structure which has larger audience. The growth in Islamic banking is mainly attributed to need for an alternative for the financing needs by the Muslims.

Hussain (2011) said that Islamic banks have gained its own importance with the level of growth all over the world after its introduction in 1963 in Middle East. It has grown at a rate of 10-15% from 2005-09 and with that rate it can set a new basic for the traditional financial structure. Various financial techniques used in Islamic Banks are Murabaha , Bayah Mu'ajjal (Deferred payment sale), Bay'ah Salam (Purchase with deferred delivery , Ijara (leasing) etc. When Muslims had no other alternative, they had to invest their money in Conventional Banking structure. But, with Islamic Banking, there are huge funds that can be garnered which will lead to increase in their assets. People with high heels earn huge profits by investing after taking the loan from the banks and do not share the profits which can be avoided with the profit and risk sharing system offered by Islamic banks.

Eqbal (2011) said that Banks are an important part of an economy in mobilising the funds by routing the savings and earn higher by investing in various projects. But, it is often believed that there is a kind exploitation, for both depositor and borrowers in the conventional banking practices, that is why Islamic Banking has grown its importance as an alternative, as it is interest or Riba free and have Shariah board which defines the financing activity or function which is Shariah complaint. Since, Islam believes that there should be no money disparities of wealth and that is the duty of the person who has funds to make sure that the needy also gets the basic essential. Islamic banking was first introduced in Middle East, and since then it has shown its growth potential by spreading its feet to over 75 countries with over 270 Islamic Banks and assets of over $265 Billion and it will still grow as Muslims looks for things that are complaint to Shariah. For better running of an economy during the times of financial distress, Islamic banking can be explored as an alternative to the conventional banking

Pandu and Hussain (2011) studied the introduction of Islamic Banking in India to suggest the legal framework. They suggested that with current banking regulations it is not possible for Islamic banks to pave its path in India, but special provisions in accordance with provisions of NBFC's so that foreign investments could be called from the Middle East. They also suggested that RBI can introduce this kind of banking in a phased manner by taking examples of Non-Islamic countries like US, UK, Germany, France, etcetera. When it will be rolled out in fully fledged operating banks, it will help in infrastructure development and further boost the economy of India as a whole.

Aljifri and Khandelwal (2012) said that Islamic banks are Shariah complaint, but how they are implanted in different countries is different. So, they developed a new index, Khaled Khandelwal Islamic Banking rating model to know which Islamic Bank can be labelled as conservative, moderate and liberal in terms of the regulations complying under Shariah. Financial reported of 72 Islamic banks of year 2009 were taken and ROA and OE to assets were calculated to measure profitability and efficiency. Study found that there was no significant difference in terms of profitability, but Liberal Banks (LB) were slightly better than Conservative Banks (CB), Moderate bank were slightly better than LB, and MB being slightly better than CB. While comparing efficiencies, MB was significantly better than CB, while there was no significant difference between others. Profitability and efficiency of CB is low in comparison because of the strict compliance to the Shariah regulations.

Amin (2012) conducted a study to know the awareness level of Muslims in Gujarat in context to Shariah principles, Islamic values and its dependence on financial decisions. Sample study was done and sample of 100 respondents from Ahmedabad district were interviewed. It was found that mostly all of the Muslims were about the basis principles involved. Majority of Muslims did not follow Shariah principles rigorously before making an investment, but try to. Muslims were interested in Islamic financial products if they are offered in the market.

Faisal (2012) said that in current era of advancement, banking is not confined to only its traditional duties, but it has to serve the nation in the development and its welfare. India

Muslims are generally poor and are not able to meet the requirements of conventional banks to undertake loans, because they are not able to meet the credit worthiness. Poor Non-Muslims and lot of MSME's lack the credit guarantee too. To know the consumer say regarding Islamic Banking in India, Faisal designed a questionnaire and 152 people from B class cities of North India were taken. He found that both Muslims and Non-Muslims are unaware about principle Islamic Finance, but Muslims are more aware about the basic terms in the Islamic Finance like Shariah, Riba etc. 77 percent Muslims and only 6 percent Non-Muslims agrees to immediately open an account with such banks if they exist. He further concluded that in India, most people are not aware of this type of alternative banking, but people have showed a positive approach.

Fasih (2012) tried to understand the practicality of Islamic banking in India. He explained the operational model of financing under this kind of banking which states the sharing of partnership, sale, joint ownership, leasing. It could help in financial inclusion of Muslims, upliftment of famers, lead to growth of SME's, call for investment from countries in Gulf and promoting constitutional goals. SWOT analysis and Portors five forces analysis was done to cortically examine its working possibility and further suggestions were made how it can pave its feet in India. The researcher presented an example that Malaysia which has a Muslim population of around 15 million, implemented Islamic banking and succeeded, therefore, India, where Muslim population is more than Muslim population of lot of Islamic countries, it can succeed if it is properly implemented.

Srairi *et al.* (2012) said that, Islamic Banks has fast grown, but the study on their performance analysis wasn't much done. Therefore, they conducted a study to check the market and operating efficiencies of Islamic Banks. Study was done on 25 Islamic banks in Gulf Cooperation countries from a timeframe of 2003-2009. Data envelopment analysis (DEA) method was taken to calculate the technical efficiency where cost variables were put as inputs and revenue as outputs and market efficiency was checked from the price change in shares. It was found that during the study period, efficiency of Islamic Banks has improved, but they have been inefficient in controlling the inputs costs. Size of the banks positively affected the efficiency of Islamic Banks and most of the Islamic Banks operate on small to medium size scale. Lastly, stock returns has responded positive towards the managerial efficiency, but not to the change in scale efficiency

Ahangar *et al.* (2013) tried to study the scope if Islamic Banking in India. In their research they mentioned that, being the second largest country with Muslims, large portion of the population still do not access banking because of lack of Islamic financial products offered in the market. With its introduction, it could cater to that portion of population and help in development of all community as a whole. With its introfuction, it will further call for foreign investment from the gulf which will help to keep the fiscal deficit in check, help poor, small manufacturing, and agricultural enterprises, retailers, and further provide equity funding for infrastructural projects like irrigation, damns, roads, etc, which will help in development of the Indian economy as a whole.

Basha and Ahmad (2013) studied the feasibility of Islamic Banking in context to Indian economy. Researchers are of an opinion that introduction of Islamic banking should be considered seriously by the Indian government as it will solve various economic problems like farmer suicides, poverty, and shutting down of small scale industries. India can take examples of Singapore and UK to implement Islamic banking in India.

Bhat (2013) did a study to understand the nature, scope and practicality of Islamic Banking in India. Since Islamic banking provides interest free loans, researcher feels it has huge potential to fulfil the need of infrastructure growth in India. It needs to be presented as professional banking separating it from the religious stigma attached to it along with the well constructed and thought policies.

Jamshidi *et al.* (2013) did a literature review on the possible impact of demographic items on the usage and impact of Islamic banking services. Researcher was an opinion that to remain competitive in the financial market, it needs to opt appropriate strategies to attract new customers. It will be important for Islamic banks to understand the different customers and their preferences so that they can related services and serve them better which will increase its usage around the world.

Khan (2013) studied that there has been constant growth of around 15% of Islamic banks annually with its assets of over $ 1 trillion. There are over 300 Islamic monetary establishments spread over 51 nations worldwide which adhere to Islamic principles. But, in India, Muslims avail only 4% and 0.4% of credit facilities from NABARD and SIDBI respectively and there is huge income disparity with lot of suicides because of financial burden on farmers. Islamic banks can have an immense growth in India because it can provide micro finance at low cost and invest in projects which are profitable and ethical in nature. Islamic banks have stood by stronger in comparison to conventional banks during the times of crisis.

Singh and Yadav (2013) said that profit being the main essence of every banking, it is strange when we notice the growth of Islamic Banks which are growing without charging interest. In India, Islamic Banking is misconceived with a perception that it is only for the poor Muslim community. Therefore, this study was conducted to understand the concept of Islamic Banking in India, its potential, financing modes and issues.

Islamic Banking is based on the concept of PLS and no interest. Various modes of the same are Mudarbah (profit sharing), Musharakh (Joint venture), Ijara (leasing), and Murabahah (cost plus fixed charge). Study finds that India has large potential to inculcate Islamic Banking as there is huge Muslim population, budding entrepreneurs, MSME's, poverty stricken population. It will help in overall economic growth, incoming of FDI's from Gulf, no exploitations of the borrowers. While the issues which might cause a hindrance are banking regulation act needs to be amended, capital adequacy problems, no power to issue cheque and not properly be able to analyze investment proposals.

Srivastava *et al.* (2013) This study was done to find out the reasons as to why Islamic Banking has found it difficult to pave its feet in India even though it has garnered huge

importance and growth all over the world as an alternative to traditional financial system. For this, related literature and secondary data analysis was done. Islamic bank was started as a private set up in Dubai in 1975, but it was all government initiative in Iran and Pakistan. After starting Islamic banking in 1983, now, there are 17 domestic and 4 international Islamic Banks in Malaysia. Assets in Islamic banks have grown by 41% in Qatar, 235 in Bahrain, 52% in Kuwait and by 40 percent in Saudi Arabia from 2008-10.

But, in India, RBI Act requires banks to charge interest on borrowings, which marks the birth of Islamic Banks in India impossible without necessary amendments even though India has third largest Muslim population. With such high Muslim population, India has a high growth positional in Islamic Financing. Also, it is not only restricted to only Muslims. It just needs to be advertised so that people can believe that it is not religion centric.

Yatoo *et al.* (2013) conducted a study to spotlight the present scenario of Islamic finance in India and to know the knowledge of Indian Muslims about financial products offered in the market and the practices thus followed. Primary and secondary study was done and it was found that most of the Muslims in India are not much aware about the concepts of Islamic Banking and finance and it was suggested to spread more awareness about the same.

Bahruddin (2014) conducted a research to understand the concept, principles, need, scope, misconceptions, and factors which forms the reason why Islamic Banks have not yet been established in India. Research conducted was secondary in nature which involed studying the related articles, journals, and data available. Researcher defined the basic principles in Islamic banking which differentiates it from the interest based banking since it forbids the Riba (interest) and Gharar (uncertainty, risk, and deceiving). Currently, in Kerala (24% Muslims), Al Barakh, an Islamic Bank is formed as a NBFC in partnership with state government(11%) which will not operate as bank or give loans, but will make investments in projects other than those involved in sale of pork, alcohol or other Halal activities. As of now, these types of banks can only be established as NBFC's under the RBI amendment act, 1997 based on P/L and Islamic principles. Islamic Banking has been misunderstood by many as religious charitable venture established only for Muslims. Researcher believes that stage is set to establish the Islamic banks, but without proper regulation, it may create chaos and adverse economic environment, before it can be tuned as banks and not NBFC's. It has already been

Mohan (2014) As per Shariah law, Islamic Banks are the ones who do not charge interest and do not provide loans for the purpose of the activities not permitted under Islam. It is regulated by Accounting & Audting organisation for Islamic financial institution (AAOIFI). Islamic financing is not religion centric and open for all people.

In Kerala, first financial Institution which is Shariah complaint (Cheraman financial services ltd) was opened. It could invest money in the projects and profits were shared in the form of dividends, but it could not provide loans. Aligarh Muslim University has

initiated a Post Graduate course in Islamic Banking & Finance. BSE TASIS is an index which consists of 50 largest and most liquid shariah complaint stocks from BSE 500.

Islamic Banks can cater to the needs of large Muslim population of India, budding entrepreneurs, MSME's, low income population group who otherwise find hard access to financial sources because of lack of credit worthiness. Various reasons that stop the introduction of these banks is because of the stiff competition, no standardized regulations, operational size is small, lack of awareness and it is often assumed that it will lead to terror funding in India. But, it can be tackled by generating awareness and introducing Islamic Financing as ethical financing.

Siddique (2014) Since interest is considered Haram under Islam, therefore was need to search for an alternative because it was believed by many economists that interest rate banking promotes income disparities, which was PLS based. Zahid in his study tries to find practical and theoretical significance of Islamic Financing.

Conventional Banking is based on the credit worthiness, capital, and capacity of the borrower. Earlier Muslims had to no other alternative than to cater their needs with the existing financial services in the market. Therefore, an alternative was sought which was PLS system; where there is sharing of profits and risk and clients act like partners by which clients can make better opportunities.

To check all the structures of Islamic financing, Zahid categorised them as ideal (PLS, Loan with return, Limited use of free return) and drift from ideal (Fixed return, future, swap) and found that there is limited use of the instruments which are a drift from ideal as it can lead to misuse and not comply with rules of Islamic Financing. Islamic banks favour SME's and the neglected sector more in comparison to Conventional Banks.

Peediyekkal (2019) Banking in India was totally transformed after LPG policy came in 1991. There is a major portion of the population in India that is still below the poverty line; there Islamic Banking can become an era of great potential. Islamic banking is based on the principles of no interest, sharing of risks and profits, compulsory Zakat for social growth, and investing in only those activities allowed under Islam.Islamic banking was started from Middle East and now spread its growth in over 60 countries where Iran (30%) has the highest share. Countries now want to try PLS system of banking than the conventional one. Majority of Muslims in India lack education, employment and are poverty stricken. Islamic banks if introduced in India will fill the gap of economy disparities and help Muslims who feel the current financial structure in India is not based on their religious principles. To cater needs of every person of the nation, there needs to be an alternative to the conventional banking structure with adequate amount of awareness and knowledge distribution.

Din *et al.* (2019) To study the present scenario of Islamic financing in comparison to the conventional banks, he surveyed 50 people where 80 percent of people were not satisfied with the current interest rate existing in the nation, where only 10 percent had herd of interest free banking and only 40 percent of the people believed that interest free banking

could be better than the profit sharing method. He further suggested that instead of Islamic banking, ethical financing can be used so that it doesn't become religious centric. He believed that Islamic Financing has lot of scope in India as lots of people from the weaker section do not have access to the conventional banking because of lot of credit worthiness and since India is also centred on providing low interest loans to the farmers, MSM's and budding entrepreneurs.

Rahmi *et al.* (2020) studied the perception of Islamic banking products among students in Malaysia. Survey studied was done and questionnaires were distributed among 250 university students on random basis. It was found that three fourth of the sample indulged in Islamic banking, while only 67 % people were aware educated about Islamic banking. Researchers believed that to maintain the old customers and attract the new ones, Islamic bank stakeholders need to strongly align all their financial products and services with the Shariah law since it is an important area of perception for the majority of the respondents.

Shamsudheen *et al.*(2020) conducted a study to understand perception of bankers, customers, and institution clients of UAE in selecting Islamic banking services. Survey method was used and questionnaires were distributed, out of which 237 received from bankers, 416 from customers, and 70 from institutional clients. While, bankers believe the preference of institutional clients to choose Islamic banking is because of cost, affordability and rates of return. It was customer's preferred Shariah compliant banking product. Also, bankers believe that customers also take advice from their peer group in choosing which Islamic bank or service offered to them.

IV. Research Gaps identified

Since the time of its origin in Egypt, Islamic Banks have garnered huge popularity in Middle East and expanding its foot stones in UK and US too. But, Islamic Banks have not found its way in India, even though India holds the second highest number of Muslims because RBI doesn't permit banking activities without charging of Interest. But, for Muslims, interest is prohibited that is why still around 50% of the Indian Muslim population (Sachar Committee Report) isn't participating in the conventional banking structure because they are not offering any Shariah complaint banking products. With the banking crisis in the economy and to cater to the needs of every individual of the country, inclusion of Islamic Financing becomes rather necessary in the economy, since Islamic Banks do not consider investing in risky assets. Various studies have been done which suggest that there have been high growth rates of Islamic Banks in Gulf, UK and US. The launch of Islamic banking in India will create new prospects for several sections of the Indian economy

Various studies have been done on the origin, growth, prospects and comparison of conventional banks in respect to Islamic Banks in the GCC and other countries, but there haven't been many studies which suggest the future roadmap by which Islamic Banks

could pave its way in India. Though, Islamic Banks could be established as Non-Banking Financial Institutions, but it is still in a stage of infancy. All studies done in India suggest that there is need of Islamic Banking in the country to cater the needs of rising Muslim population in India. Also, reading various foreign literatures, it is suggested that Islamic Banking needs to work in sync with the conventional banks to fill the economic disparities. Therefore, there is a gap where study aims at finding all the barriers faced by Islamic Banking in India and to suggest further guidelines by which Islamic Banks could be established on a bigger scale so there is incoming investment from cash rich GCC countries.

V. Rationale of the Study

Still, large part of Muslim population in India do not indulge themselves in the conventional banking structure, therefore, Islamic Banking is needed in India to cater to the needs of every Individual of the country. Therefore, the study is needed to examine the odds and practicability of Islamic banking in India to understand the obstacles in the course of pavement of Islamic banking in India and finding solutions to remove those roadblocks. A comparative analysis and observation between Conventional banking system and Islamic banking in India is also needed to understand the structural differences. Also, current knowledge of the banking customers about the Islamic banking also needs to be known so that it can be considered as an alternative to the existing conventional banking structure in India.

VI. Objectives of the Study

i) To define the principles, financial products offered, and compare its working structure with Conventional Banking;
ii) To study the growth of Islamic Banks in comparison to Conventional Banks in India;
iii) To analyse the financial performance of Islamic Banks in comparison to Conventional Banks in India;
iv) To find the knowledge and perception of banking customers about Islamic Banking as an alternate to Conventional Banking; and
v) To find the factors which are hindrance to establishment of Islamic Banking in India and further suggest how it can set up its roots in India.

VII. Hypothesis of the Study

To achieve our objectives of the study, hypotheses that have been developed are:

H_0 1: There is no significant difference between the growth of Islamic Banks and Conventional Banks.

H_1 1: There is significant difference between the growth of Islamic Banks and Conventional Banks.

H_0 2: There is no significant different between the financial performance of Islamic Banks and Conventional Banks.

H_1 2: There is significant different between the financial performance of Islamic Banks and Conventional Banks.

H_0 3: There is no significant difference between the knowledge and perception of banking customers in respect to Islamic Banking as an alternative to Conventional banking.

H_1 3: There is significant difference between the knowledge and perception of banking customers in respect to Islamic Banking as an alternative to Conventional banking.

VIII. Research Methodology

To achieve our objectives of the study, both descriptive and empirical research would be conducted. The research will be done by analysis of Statistical Data, questionnaire, study of related literature, documentary testimonies, etc. The growth and analysis of financial performance would be done using the audited financial statements of the banks. To know the knowledge and perception of banking customers, questionnaire method would be used by asking directly to the sample population.

Research design: The research would be conducted in three parts where first part would include the explanation of Islamic Banking, the principles it is based on, various financial products that are offered, and structural comparison with Conventional banking. Second part would include application of quantitative and analytical tools to financial statements of banks which will be obtained from the secondary sources to measure and compare the growth and performance of Islamic Banks and Conventional Banks. Third part would include the use of questionnaire to know the perception and knowledge of banking customers.

Data collection: To find the growth and financial performance of the banks, secondary data in form of audited financial statements like income statements, balance sheets, notes to accounts, etc. would be taken from the respective bank websites. Five Islamic Banks from the GCC countries would be taken based on the maximum numbers of customers of the bank taking their services, and five public and private Indian banks would be taken based on the similar pattern.

To know the knowledge and perception of banking customers about Islamic banking, primary data in the form of questionnaire would be used. Adequate sample size would

be chosen to cater to the whole population on the basis of convenience sampling and would be interviewed to get the required information from the respondents.

Reference period: Financial statements of past ten years from 2010-11 to 2019-20 would be taken for the study.

Research Tools: To reach the first objective, descriptive study would be done to define the concept of Islamic banking, explain up its principles, various financial products that are currently being offered and then comparing it with the conventional banking structure of India. To check the growth, averages of various growth variables would be calculated for the sample group of both Islamic Banks and Conventional Banks taken for study. Popular financial statement analysis tool analysis i.e. Ratio analysis would be used to compare the financial performance of the Islamic Banks and the sample conventional banks taken for study. Various statistical tools like averages, percentage analysis, ration analysis, mean, standard deviation, t-test, ANOVA, etc would be used to conduct our study efficiently.

IX. Chapter Scheme

The study would be split in chapters which will as follows:

1. Introduction- It will include the background, principles, financial products offered and the banking structure of the Islamic banks in reference to Conventional Banking structure of India.
2. Review of Literature- It will include the various studies done in the past about Islamic Banking and its prospects in India and the research gap that has been identified.
3. Research Methodology- It will include the methodology opted to reach the objectives of the current study, its research design, sampling method, size of the sample, techniques and tools, etc.
4. Data Analysis and interpretation- It will include data analysis part in respect to primary or secondary data that has been collected.
5. Conclusion and Suggestions- This chapter will conclude the results and key findings of the study. It will also include the hindering factors and further suggestions how Islamic Banks can be established in India as an alternative to existing conventional Banking structure of India.

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